MICC INVESTMENTS LIMITED

1975 ANNUAL REPORT

MICC INVESTMENTS LIMITED

HIGHLIGHTS FOR THE YEAR

	1975 $	1974 $
NET EARNINGS (before realized investment gain or loss)	8,863,302	6,291,316
NET EARNINGS	8,119,645	5,695,089
TOTAL ASSETS	124,981,531	88,836,756
SHAREHOLDERS' EQUITY	51,927,505	43,175,428
INVESTMENT INCOME	8,558,274	5,758,533
UNDERWRITING REVENUE	9,651,713	7,672,955
EARNINGS PER SHARE (before realized investment gain or loss)	$1.55	$1.24
EARNINGS PER SHARE	$1.42	$1.13
DIVIDENDS PAID	24¢	20¢

Gardner English, President of MICC Investments Limited, and Reginald T. Ryan, President and Chief Executive Officer of The Mortgage Insurance Company of Canada. Mr. English, who had been Chief Executive Officer of The Mortgage Insurance Company of Canada since the founding of the company, reached retirement age in October, 1975 and was succeeded by Mr. Ryan.

BOARD OF DIRECTORS OF

MICC INVESTMENTS LIMITED AND THE MORTGAGE INSURANCE COMPANY OF CANADA

T. A. BOYLES
Honorary Chairman
The Bank of Nova Scotia
Toronto, Ontario

R. C. BROWN
Partner
Blake, Cassels & Graydon
Toronto, Ontario

JOHN COCHRAN
President
Domtar Construction Materials Ltd.
Montreal, Quebec

HAROLD CORRIGAN
President
Alcan Canada Products Limited
Toronto, Ontario

S. E. EAGLES
President
Marathon Realty Company Limited
Toronto, Ontario

GARDNER ENGLISH
President
MICC Investments Limited
Toronto, Ontario

C. W. JAMESON
Executive Assistant to the President
The Bank of Nova Scotia
Toronto, Ontario

MAX H. KARL
Chairman
MGIC Investment Corporation
Milwaukee, Wisconsin, USA

PETER KILBURN
Chairman
Greenshields Incorporated
Montreal, Quebec

FRED H. McNEIL
Chairman and
Chief Executive Officer
Bank of Montreal
Montreal, Quebec

REGINALD T. RYAN
Executive Vice-President
MICC Investments Limited
Toronto, Ontario

R. T. SCURFIELD
President
Nu-West Development
Corporation Ltd.
Calgary, Alberta

G. D. SUTTON
President
Canadian Enterprise Development
Corporation Limited
Montreal, Quebec

J. L. TOOLE
Chairman, CN Investment Division
Canadian National Railways
Montreal, Quebec

C. L. TOWNEND
Assistant General Manager
The Toronto-Dominion Bank
Toronto, Ontario

G. J. VAN DEN BERG
Company Director
141 Hampshire Crescent
Beaconsfield, Quebec

B. G. WILLIS
Senior Vice President
Greenshields Incorporated
Toronto, Ontario

DECEMBER 31, 1975

EXECUTIVE OFFICERS

MICC INVESTMENTS LIMITED

President
GARDNER ENGLISH

Executive Vice-President
REGINALD T. RYAN

Vice-President
C. W. JAMESON

Secretary-Treasurer
DAVID C. TOMS

THE MORTGAGE INSURANCE COMPANY OF CANADA

President
REGINALD T. RYAN

Vice-President
C. W. JAMESON

Vice-President
JAMES McAVOY

Vice-President
JOHN McCREADIE

Secretary-Treasurer
DAVID C. TOMS

Assistant Vice-President
GEORGES W. CARPENTIER

MICC INVESTMENTS LIMITED

PRESIDENT'S MESSAGE

Your Company continued its record of growth and profitability in the year under review. MICC Investments Limited increased net profits, before realized investment loss, to $8,863,302, equal to $1.55 per share compared with $1.24 per share in 1974. Consolidated assets increased to $124,981,531 from $88,836,756 at the previous year-end. As 1975 opened, prospects for the housing and real estate industries were somewhat clouded and industry expectations were for a moderately lower level of activity than in 1974. After a slow start, the housing industry gathered momentum in the second half of the year and final results are expected to show a small increase in new housing starts. Real estate markets were also very active across Canada and this combined activity was very favourable for the mortgage insurance business.

The Mortgage Insurance Company of Canada issued gross commitments for new Canadian mortgage insurance in the amount of $2,218,000,000 compared with $1,960,000,000 for 1974. This level of commitments was a record for the insurance company. Net premiums written for the year amounted to $19,552,099, about the same level as for 1974. Report in detail on the operations of The Mortgage Insurance Company of Canada by its president, Mr. R. T. Ryan, is set out in later pages of this report.

The success in writing of new business by the insurance company during the year resulted in need for new capital late in 1975. The Company arranged financing in the amount of $14,000,000 in the latter part of the year. The sum of $10,000,000 was raised by sale of income debentures which were purchased by a group of Canadian institutional investors. Of the total amount, $2,000,000 bears a fixed rate of interest and the balance carries a floating rate of interest related to prime bank rate. As at December 31, 1975 the average cost to the Company of the issue was 7.55% per annum. The debentures mature September 30, 1981 with mandatory prepayment by the Company of one third of the principal amount on September 30, 1979 and one third on September 30, 1980. The remainder of financing of $4,000,000 was obtained by means of a bank loan. Total proceeds of the income debentures and the bank loan were invested in preferred stock of The Mortgage Insurance Company of Canada and increased the capital funds of that company to $59,634,943 at December 31, 1975.

The number of shares outstanding at December 31, 1975 was 5,711,080, unchanged from the previous year-end. Dividends were paid during the year of 24¢ per share.

Investments increased substantially during the year, rising from $87,003,033 to $120,608,275. This growth reflected retained earnings and the proceeds of income debentures and bank loan. High rates of investment return prevailed in Canada during the entire year and the return on investments acquired during the year reflected these high yields. Strong liquidity has been maintained with 38% of portfolio represented by cash, Canadian and U.S. government bonds and high quality short term investments. Changes were made in the portfolio with a view to improving quality. The substantial holdings of dividend paying securities resulted in an average income tax rate on the investment portfolio of 15.5%.

A special general meeting of shareholders was held on January 29, 1976 to consider and approve authorization for creation of $100,000,000 in preferred stock to be issued in future in series. The continued growth

of The Mortgage Insurance Company of Canada requires the increase in its capital base from time to time to support growing insurance in force. Within the last few weeks, your Company sold \$20,000,000 of 10% preferred shares to the public to raise, after the costs of the issue, approximately \$19,285,000.

The guidelines set down by the anti-inflation board place a restraint on dividends which may be paid on the common stock of Canadian corporations which are listed on stock exchanges. MICC Investments Limited is subject to this restraint, and it would appear that the Company cannot pay a dividend on its common shares in 1976 in excess of 24¢ per share, the annual rate for 1975.

MICC holds a 50% interest in Charlotte Properties Limited, which owns the "Shawano" project, a recreational land development in Hastings County, Ontario. The interest in Charlotte was acquired in 1969 and since then approximately 50% of the property, which was planned for sale as waterfront lots, has been sold. The plan for development of remaining land reflects concern of government authorities as to recreational land use and will be aimed toward design providing wider public access to water frontage. Plans for use in this manner are now before local and provincial departments for approval, which is expected by mid-1976. Operations of Charlotte resulted in a small profit in 1975. It is expected that resumption of sales on the projected basis will result in profitable operation in 1976.

As noted in my opening remarks, the mortgage industry enjoyed a good year in 1975. The pace of residential construction and real estate activity that was achieved in the last quarter seems likely to continue in 1976. The federal minister responsible for housing has set a goal of 235,000 new housing starts and it seems probable that this level can be attained. The Assisted Home Ownership Plan (AHOP), a federal program to assist first-time home buyers, plus several provincial assistance plans, will help to create new housing for moderate income families. Lending institutions have indicated a willingness to increase overall mortgage commitments by 15%. While some difficulty may be experienced by builders in getting serviced land, particularly for the lower income end of the house market, this problem should be overcome. On the negative side, we find mortgage interest rates at the 11½-12% level, an increasing number of jurisdictions exerting rent control and some uncertainties about the impact of anti-inflation measures.

On balance, it would appear that the year ahead has the ingredients for reasonable success in housing and mortgage lending. Such prospects are favourable to the continued growth of your Company.

Gardner English

Gardner English
President

March 3, 1976

MICC INVESTMENTS LIMITED

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1975

ASSETS

	1975	1974
	$	$
CASH AND ACCOUNTS RECEIVABLE		
Cash	576,731	532,357
Interest accrued and sundry receivables	1,587,470	404,775
Premiums receivable	1,250,000	400,000
Foreign income taxes recoverable	310,519	—
Due from other insurance companies	152,491	—
	3,877,211	1,337,132
INVESTMENTS (note 2)		
Treasury bills and other short-term securities – at cost	32,318,491	14,825,000
Bonds and debentures – at amortized value (market value $22,902,841; 1974 – $32,636,007)	25,362,393	34,353,738
Preferred stocks – at market value (cost $47,624,232; 1974 – $31,895,134)	44,405,448	27,131,651
Common stocks – at market value (cost $14,466,281; 1974 – $10,232,034)	13,903,905	9,211,266
Mortgages – at cost	1,003,568	790,158
Real estate	3,322,750	400,000
Corporate joint venture (note 3)	291,720	291,220
	120,608,275	87,003,033
OTHER ASSETS		
Loan to trustees under employee stock purchase plan	267,300	335,867
Other	144,846	160,724
Debenture expenses at amortized cost (note 5)	83,899	—
	496,045	496,591
	124,981,531	88,836,756

Signed on behalf of the Board:

GARDNER ENGLISH, Director

G. D. SUTTON, Director

LIABILITIES

	1975	1974
	$	$
ACCOUNTS PAYABLE		
Bank loan	4,000,000	—
Due to other insurance companies	27,408	311,232
Provision for claims	1,391,106	198,399
Accounts payable and accrued liabilities	893,724	198,277
Premium taxes payable	105,659	367,801
Income taxes payable	189,689	99,060
Due for securities purchased	42,237	71,251
	6,649,823	1,246,020
OTHER LIABILITIES		
Deferred revenue (note 4)	53,524,278	42,661,225
Deferred income taxes	2,879,925	1,754,083
Income debentures (note 5)	10,000,000	—
	66,404,203	44,415,308
	73,054,026	45,661,328

SHAREHOLDERS' EQUITY

	1975	1974
CAPITAL STOCK (notes 6 and 11)		
Authorized – 10,000,000 common shares without par value		
Issued and fully paid – 5,711,080 common shares	37,430,189	37,430,189
RETAINED EARNINGS	18,278,476	11,529,490
	55,708,665	48,959,679
UNREALIZED LOSS ON STOCKS	(3,781,160)	(5,784,251)
	51,927,505	43,175,428
	124,981,531	88,836,756

MICC INVESTMENTS LIMITED

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1975	1975 $	1974 $
REVENUE		
Net premiums written	19,552,099	19,515,633
Application fees	1,344,661	1,331,462
Commission income	12,857	15,043
	20,909,617	20,862,138
Less: Increase in deferred revenue	11,257,904	13,189,183
Underwriting revenue (note 2)	9,651,713	7,672,955
Investment income—		
Interest and amortization	3,810,878	3,088,224
Dividends	4,746,896	2,639,659
Corporate joint venture (note 3)	500	30,650
	8,558,274	5,758,533
	18,209,987	13,431,488
EXPENSES (note 2)		
Insurance underwriting and policy issuance expenses	1,722,736	1,471,202
Premium taxes	393,466	393,219
	2,116,202	1,864,421
Less: Increase in deferred expenses	394,851	249,008
	1,721,351	1,615,413
Losses on claims incurred	2,842,978	848,962
Other operating expenses	1,106,092	900,697
Income debenture interest and expense amortization (note 5)	194,716	—
	5,865,137	3,365,072
EARNINGS BEFORE INCOME TAXES	12,344,850	10,066,416
PROVISION FOR INCOME TAXES		
Current	2,355,706	3,169,600
Deferred	1,125,842	605,500
	3,481,548	3,775,100
EARNINGS BEFORE REALIZED INVESTMENT LOSS	8,863,302	6,291,316
Realized loss on disposal of investments	743,657	596,227
NET EARNINGS FOR THE YEAR	8,119,645	5,695,089
EARNINGS PER SHARE		
Earnings before realized investment loss	$1.55	$1.24
Net earnings for the year	$1.42	$1.13
Weighted daily average number of shares outstanding	5,711,080 shs.	5,056,575 shs.

MICC INVESTMENTS LIMITED

CONSOLIDATED STATEMENT OF UNREALIZED LOSS ON STOCKS

FOR THE YEAR ENDED DECEMBER 31, 1975

	1975	1974
	$	$
UNREALIZED LOSS ON STOCKS – BEGINNING OF YEAR	5,784,251	916,443
Unrealized loss (gain) on stocks for the year	(2,003,091)	4,867,808
UNREALIZED LOSS ON STOCKS – END OF YEAR	3,781,160	5,784,251

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1975

	1975	1974
	$	$
RETAINED EARNINGS – BEGINNING OF YEAR	11,529,490	7,056,850
Net earnings for the year	8,119,645	5,695,089
	19,649,135	12,751,939
Expenses of rights issue	—	180,703
Cash dividends	1,370,659	1,041,746
	1,370,659	1,222,449
RETAINED EARNINGS – END OF YEAR	18,278,476	11,529,490

MICC INVESTMENTS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1975

	1975 $	1974 $
SOURCE OF FUNDS		
Operations –		
Net earnings for the year	8,119,645	5,695,089
Increase in net deferred revenue (note 4)	10,863,053	12,940,174
Income taxes deferred	1,125,842	605,500
Depreciation and amortization	53,786	38,922
Funds generated from operations	20,162,326	19,279,685
Common shares issued (net of expenses)	—	10,982,577
Debentures issued (net of expenses)	9,911,685	—
Decrease in cash and accounts receivable	—	602,721
Increase in accounts payable	5,403,803	—
Decrease in loan to trustees under employee stock purchase plan	68,567	15,619
	35,546,381	30,880,602
USE OF FUNDS		
Increase in cash and accounts receivable	2,540,079	—
Decrease in accounts payable	—	1,304,388
Purchase of fixed assets	33,492	75,316
Dividends	1,370,659	1,041,746
	3,944,230	2,421,450
FUNDS AVAILABLE FOR INVESTMENT	31,602,151	28,459,152
INVESTMENT FUNDS – BEGINNING OF YEAR	87,003,033	63,411,689
	118,605,184	91,870,841
Unrealized gain (loss) on stocks for the year	2,003,091	(4,867,808)
INVESTMENT FUNDS – END OF YEAR	120,608,275	87,003,033

MICC INVESTMENTS LIMITED

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1975

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of MICC Investments Limited (the "company") include the accounts of its subsidiary, The Mortgage Insurance Company of Canada (MICC).

2. ACCOUNTING POLICIES

The accounts of MICC are included herein in accordance with generally accepted accounting principles. The application of these principles is set out for the following significant items:

Premiums

Net premiums written are deferred and then taken into underwriting revenue as earned over the terms of the related policies. Prior to 1974, the majority of policies were written for a term of fifteen years; since then the majority of policies have been written for twenty years. The rate or formula under which premiums are earned relates to the amount of risk in each year of coverage.

Application fees and commission income

Application fees received on insurance policies written and commission income received on reinsurance premiums ceded to a reinsurer are taken into income as received.

Underwriting and policy issuance expenses and premium taxes

Underwriting and policy issuance expenses and premium taxes in excess of application fees and commission income are deferred and then amortized against premiums as the premiums are earned.

Losses on claims incurred

A provision is made for potential losses on mortgage loans which are in default for three or more months. This provision is based on past experience of MICC. A further provision is set up for each mortgage loan when MICC anticipates that a lender will be making a claim on a mortgage. On settlement of a claim, the real estate acquired is carried in the accounts at 90% of the estimated realizable value.

Investment income

(a) Treasury bills and other short-term securities – Interest is recorded as income as it accrues. Realized and unrealized gains and losses are taken into income.

(b) Bonds and debentures – Interest is recorded as income as it accrues. The premium or discount between cost and maturity value is amortized into income over the period to maturity. A gain or loss on the sale of a bond or debenture is deferred and then amortized over the term to maturity of the security sold.

(c) Stocks – Dividends are recorded as income on the ex-dividend date. Realized gains and losses net of income taxes, on disposal of stocks are taken into income as a special item. Unrealized gains and losses on stocks are accounted for in a special statement (consolidated statement of unrealized loss on stocks), the balance of which is transferred to shareholders' equity.

3. CORPORATE JOINT VENTURE

The investment in the corporate joint venture is accounted for on the equity basis and consists of the following:

		$
Demand loan (unsecured)		100,000
12,000 redeemable preference shares		120,000
20,00 common shares	20,000	
Share of earnings to November 30, 1975	51,720	71,720
		291,720

4. DEFERRED REVENUE

Deferred revenue consists of deferred premiums, after deduction of deferred underwriting and policy issuance expenses and premium taxes.

5. INCOME DEBENTURES

On September 30, 1975 the company issued $10,000,000 income debentures maturing on September 30, 1981, with mandatory prepayment as to 33.4% on September 30, 1979 and 33.33% on September 30, 1980. The debentures consist of two series, $2,000,000 series A which pay interest at 8¼% and $8,000,000 series B which pay interest equal to 50% of the prime bank rate, plus 2.5%. Interest on these debentures is not deductible in computing taxable income.

Costs incurred in connection with this issue, amounting to $88,315 have been capitalized and are being amortized on a straight-line basis over the term of the debentures.

6. CAPITAL STOCK

20,400 common shares are reserved for allotment and issue to the trustees of the employee stock purchase plan.

A non-assignable stock option for the purchase of 10,000 common shares is held by a director of the company, and is exercisable over a period of five years from June 6, 1973 at a price of $16.75 per share.

7. CONTINGENT LIABILITY

The company has guaranteed bank advances to the corporate joint venture to a maximum of $250,000. As at December 31, 1975, the bank advances to the corporate joint venture were $414,018.

8. STATUTORY INFORMATION

In accordance with the disclosure requirements of the Canada Corporations Act, fees and other remuneration paid to directors and officers were as follows:

Number of directors of the company	18
Aggregate remuneration as directors of the company	Nil
Aggregate remuneration as directors of MICC	$ 45,540
Number of officers of the company	4
Aggregate remuneration as officers of the company	$ 9,625
Aggregate remuneration as officers of MICC	$249,350
Number of officers of the company who are also directors of the company	3

One officer, who is also a director, receives no remuneration as an officer.

The aggregate remuneration paid to directors and senior officers, as defined by The Securities Act of Ontario totalled $355,945.

In addition, loans made to a director who is also an officer and to another officer, under the employee stock purchase plan totalled $93,002 as of December 31, 1975.

9. FOREIGN EXCHANGE

Assets and liabilities in United States dollars have been translated at the rate prevailing on December 31, 1975. Earnings have been translated into Canadian dollars at the average rate prevailing through the year.

10. ANTI-INFLATION ACT

The company is constrained with regard to the payment of dividends under the Anti-Inflation Act.

11. SUBSEQUENT EVENTS

On January 30, 1976 the company obtained supplementary letters patent, increasing its authorized capital by the creation of 4,000,000 preferred shares of the par value of $25 each, issuable in series.

MICC INVESTMENTS LIMITED

AUDITORS' REPORT TO SHAREHOLDERS

We have examined the consolidated balance sheet of MICC Investments Limited and subsidiary company as at December 31, 1975 and the consolidated statements of earnings, retained earnings, unrealized loss on stocks and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants

February 9, 1976

TRANSFER AGENT: The Canada Trust Company
REGISTRAR: Canada Permanent Trust Company
AUDITORS: Coopers & Lybrand

THE MORTGAGE INSURANCE COMPANY OF CANADA

PRESIDENT'S REPORT

The Mortgage Insurance Company of Canada enjoyed a very successful year in 1975, with results exceeding expectations. New business committed reached a record level of $2,217,973,000 compared to $1,959,695,000 in 1974. Mortgage insurance in force in Canada increased to approximately $5.7 billion at year end from $3.6 billion at December 31st, 1974.

New net premiums written totalled $19,552,099 compared to $19,515,633 in 1974. Assets increased to $121,524,987 from $89,409,544, at the end of 1974. During the year, supplementary letters patent were issued, increasing the authorized capital stock of the Company from $15,000,000 to $50,000,000, comprising $20,000,000 of common shares and $30,000,000 of preferred shares. During the year, preferred shares were issued to our parent company, MICC Investments Limited, for a total cash consideration of $14,000,000.

Insurance Operations

The following table compares total commitments to insure issued under the various programs available to our Approved Lenders in the years 1975 and 1974.

Program	*1975*	*1974*
High-ratio house loans	$1,447,704,000	$1,484,783,000
75% house loans	282,611,000	112,115,000
High-ratio apartment loans	226,254,000	163,008,000
75% apartment loans	25,935,000	7,461,000
High-ratio commercial and industrial loans	121,193,000	107,010,000
75% commercial and industrial loans	105,525,000	81,449,000
Vacation home loans	8,751,000	3,869,000
	$2,217,973,000	$1,959,695,000

The average loan amount (per unit) for high-ratio commitments issued on new house loans increased during the year to $38,400 from $32,900 in 1974. For existing houses the average was $27,900 per unit compared to $24,100 in 1974. Only 11.6% of high-ratio house loan commitments exceeded $50,000, continuing evidence of the fact that the lending institutions are directing the bulk of their high-ratio loans to finance low-moderate priced housing.

Commitment volume under all programs increased during the year with the exception of the high-ratio house program which was marginally lower than 1974. The insuring of 75% house loans became much more common in 1975 and our volume increased to $282,611,000 from $112,115,000 in 1974, an increase of about 150%. Commitments issued on income property loans (apartments and commercial and industrial properties) increased to $478,907,000, about 33% over the 1974 figure of $358,928,000. Average income property loan was $204,000, a decrease of approximately 27% from the 1974 average, $282,000.

Lease guarantee commitments were issued covering $24,236,000 in aggregate insured rent compared to $17,902,000 in 1974, an increase of 35%. Volume under this program continues to increase as lenders, developers, investors and tenants become more familiar with its benefits. MICC liability at year end, for insurance in force under this program, was $5,766,000.

On July 1, 1975, the Province of Ontario amended the Condominium Act to require vendors of units in residential condominium projects to either place purchasers' deposits with a trustee or provide alternative protection until the condominium is registered and the purchase transaction is closed. MICC introduced a condominium deposit insurance program under which builders meeting certain criteria, could obtain deposit insurance coverage which meets the requirements of the Act, enabling them to continue to use the deposits received from purchasers, as they have in the past. We consider this to be a short-term program as it is likely that the much discussed new home warranty plan which will probably become operative in Ontario during 1976, will provide purchasers with the protection now available under our coverage. To December 31st, commitments to insure were issued for 79 projects (containing a total of 9,589 units) and our liability at year end was estimated to be approximately $13.1 million. There were no claims received under this program in 1975.

A new program of insuring second mortgages on houses was introduced late in the year. This program had been under study for some time and management believes that it will supply a service that will supplement our high-ratio house loan facilities. Considerable interest has been exhibited by a number of our Approved Lenders and Approved Correspondents.

Our list of Approved Lenders and Approved Correspondents continued to grow in 1975. As at this date, there are 241 Approved Lenders (10 chartered banks, 45 life insurance companies, 44 trust companies, 29 loan companies, 98 credit unions and caisses populaires and 15 other type institutions). In addition, there are 45 Approved Correspondents.

During the year our construction inspection department carried out 22,444 inspections on properties under construction. In addition to regular staff personnel in each of our regional offices, arrangements were made to supplement their work through use of experienced fee inspectors in a number of areas.

Plans are under way to open two new regional offices in Québec City and Regina this spring. The Québec City Office will serve Québec City and the northern and easterly area of the Province of Québec and the Regina Office will service the Province of Saskatchewan. With the opening of these two new offices we will have nine regional offices across the country.

Defaults and Claims

As at December 31st, 1975, there were 1,088 insured high-ratio house mortgages three months or more in arrears, out of 151,292 insured mortgages under administration by our lenders. This represents a default ratio of 0.72% compared to 0.39% at December 31st, 1974. In addition, 37 mortgages on income properties (apartments and commercial and industrial properties) were reported in default, out of 6,066 mortgages insured, a default ratio of 0.61% compared to 0.83% at the end of last year. There were also 37 insured 75% house loans in default, of 16,181 under administration, for a default ratio of 0.23%. Of 526 insured vacation home loans, none were reported as being in default at year end.

Claim losses during 1975 rose substantially over losses in 1974. The following table shows a breakdown of losses last year with comparable figures for 1974:

	1975	*1974*
U.S. reinsurance	$1,057,553	$590,152
Canadian mortgage insurance	1,763,605	239,217
Lease guarantee insurance	21,820	19,593

While losses incurred on the reinsurance of U.S. mortgages increased in 1975, it should be noted that approximately $350,000 of this loss resulted from a change made by the company which we have reinsured in the formula for calculation of loss provision for potential claims. Actual claim losses paid were not materially in excess of those paid in 1974 and we anticipate a lower level of losses in 1976. Premiums earned on this business are substantially in excess of claim losses to date.

The following table shows the breakdown of losses by class of real estate, under Canadian mortgage insurance operations.

	Total Losses
Houses	$ 568,180
Apartments	$1,056,759
Commercial and industrial properties	$ 138,666

The increase in losses is attributable to various factors, but one of the principal causes is the adverse economic conditions that prevailed during the year and particularly in those areas where unemployment levels were highest. The heavy increase in insurance in force over the past few years has also increased our exposure and in the light of all of these factors, the losses incurred are not considered excessive. Some revisions have been made to our underwriting procedures for income property loans and lenders are also becoming more vigilant particularly in areas where losses have occurred. With some expected improvement in economic conditions this year, we estimate that losses in 1976 will not vary materially from 1975.

At year end there were four lease guarantee cases under claim and MICC share of losses was approximately $525 per month.

At year end, 22 properties were held as real estate on our balance sheet for an amount of $3,322,750. Real estate is held on our books at appraised value less 10%. There were 10 apartment buildings containing 238 units, 10 single family dwellings and 2 commercial properties. Six of these properties have been sold with closing dates early in 1976. Eight properties (6 houses and 2 apartment buildings) are listed with realtors for sale and 8 others (2 houses and 6 apartments) are being prepared for listing.

Investments

Net after tax investment income, expressed as a percentage of the average portfolio, increased to 6.98% in 1975 up from 5.63% in 1974. The market value of the portfolio improved to 95.8% of book value, from 92.0% in 1974. During the year MICC took advantage of opportunities to improve the return on its portfolio by trading certain of its holdings for other securities of equal or higher quality. As most of the sales involved securities that were purchased when market yields were lower than prevailed in 1975, their market values were lower than book values. MICC thereby realized net losses of $743,657 versus a realized net loss in 1974 of $596,227. Such realized losses can be carried forward, for income tax purposes, to offset any future realized gains.

During the year the following changes were made in the portfolio with a view to reducing the possibility of substantial decline in market values if interest rates should rise in the next economic recovery:

(1) Exposure in and average term to maturity of long term bond holdings was reduced.

(2) Some conventional preferreds (preferreds with a purchase fund or perpetual preferreds) were sold and the proceeds used to acquire term preferreds (preferreds where the holder has an option to put the stock back to the issuer at par value), and preferreds that have mandatory sinking funds that will retire the issue in a definite period of time.

The company maintained a high liquidity position throughout the year. Holdings of cash and liquid assets were increased by $8.5 million to $37.4 million at year end, and remained at 32% of the portfolio. Debt securities, other than cash and liquid assets, were reduced $1.4 million to 16% of the portfolio from 22% last year. The average term of these debt securities was reduced to 7.3 years from 11.5 years in 1974. Conventional preferreds were reduced by $8.8 million, to 11% of the portfolio from 23% and term and sinking fund preferreds were raised to 22% from 9% of the portfolio. The common stock and convertible preferred share holdings were increased to 19.4% of the portfolio from 13.6% in 1974.

The following table shows a classification of the portfolio, at cost, as at December 31st, 1975.

Classification	*Cost* *December 31, 1975*	*% of Total* *1975*	*1974*
Cash	$ 500,000	0.4	0.4
Federal Government (Under 3 years)	20,102,875	17.0	26.2
Money Market (Under 1 year)	9,874,725	8.3	5.1
Income Debentures (Under 1 year)	7,000,000	5.9	—
Cash and Liquid Assets	37,477,600	31.6	31.7
Federal Government (Over 3 years)	8,500,766	7.2	6.7
Cash and Readily Marketable Securities	45,978,366	38.8	38.4
Provincial Government (Over 1 year)	4,118,948	3.5	7.9
Guaranteed Investment Certificates and Certificates of Deposit (Over 1 year)	5,275,000	4.5	5.3
Other Corporate Debt (Over 1 year)	900,813	0.7	2.2
Total Cash and Debt	56,273,127	47.5	53.8
Term Preferred	13,282,242	11.2	7.8
Sinking Fund Preferred	13,398,344	11.3	1.5
Conventional Preferred	12,472,235	10.6	23.3
Straight Preferred	39,152,821	33.1	32.6
Convertible Preferred	8,471,411	7.2	2.4
Common Stock	14,466,281	12.2	11.2
Common Stock and Convertible Preferred	22,937,692	19.4	13.6
Total Equity	62,090,513	52.5	46.2
Total Assets	$118,363,640	100.0	100.0

Assets amounting to $7,731,758, in support of U.S. reinsurance liabilities, are lodged with a U.S. trustee. These assets are included in the portfolio described above and consist mainly of U.S. Government securities.

1976 Outlook

As at this date, the outlook for 1976 is one of cautious optimism. The concensus for Canada's economy this year is that there will be some improvement over 1975. A housing target of 235,000 new starts has been set by the Federal Government and on the basis of 1975 performance when more than 230,000 new housing units started, this target should be achieved. The financial institutions have already indicated that there will be an increased supply of mortgage funds available this year. We expect to write a good volume of new business and, aided by the contribution to current earnings from business written in previous years, we look for a satisfactory increase in earnings.

Federal Government programs to assist low-moderate income families to become homeowners, and to stimulate construction of more apartments, are being revised and greater participation by the private financial institutions is expected. There is provision for participation in these programs by the private mortgage insurance companies and the necessary arrangements are being worked out with Federal Government officials. While the programs have merit in concept, the housing industry may not be able to produce the desired housing on the scale expected. Land and construction costs make it difficult for many builders to meet the guidelines established. Another factor which will influence the volume of new rental construction is the introduction of provincial rent controls and developers are concerned about the length of time these controls will remain in force and their effect on economic viability and marketability of such developments.

In November, 1975, the Federal Government announced that lenders would be asked to restrict all high-ratio house loans, whether insured under NHA or through the private insurers, to the limits in force for non-subsidized NHA loans. A formal letter of request was sent to lending institutions by the federal Minister of State for Urban Affairs in February of this year. The NHA limits have just been increased and now range from $44,650 to $55,000 depending on location. MICC's average high-ratio house loan (for both new and existing houses) was $35,698 last year and less than 12% of commitments issued, were in excess of $50,000. It is our view that the loan limits will not have any significant effect on our business.

Our volume of outstanding commitments at year end (commitments to insure issued to lenders which had neither turned into insurance in force or been cancelled), stood at a high level – approximately $1.4 billion. This figure will ensure a substantial volume of new premiums in 1976.

The importance of non high-ratio house loan programs continues to grow and in 1975 accounted for 40% of premiums written. This year our new program of insuring second mortgages on houses, will begin to make a contribution to new premiums written. Terms and conditions for this coverage have been conservatively established and careful underwriting practices will be followed to ensure that this will be completely acceptable business from a quality standpoint.

Staff

A large measure of the progress of the company is due to the contribution made by our head and regional office staff. Their efforts are deeply appreciated.

On October 1st, Gardner English retired as Chairman of the Board and Chief Executive Officer of the Company. He remains as a member of the Board of Directors of both The Mortgage Insurance Company of Canada and its parent MICC Investments Limited. Mr. English was the first Chief Executive Officer of the Company and has played a major role in its affairs since the first commitment to insure was issued on June 24th, 1964. On behalf of the Board of Directors, I wish to thank him sincerely for his efforts over the past eleven years.

R. T. RYAN,
President and
Chief Executive Officer

March 3rd, 1976.

THE MORTGAGE INSURANCE COMPANY OF CANADA

BALANCE SHEET

ASSETS

	1975 $	1974 $
Cash and Accounts Receivable		
Cash	508,656	400,918
Premiums receivable	1,250,000	400,000
Interest accrued and sundry receivables	1,564,646	403,775
Due from other insurance companies	152,491	—
Foreign income taxes recoverable	310,519	—
	3,786,312	1,204,693
Investments		
Bonds, debentures and stocks, at authorized values (note 1)	113,971,713	87,341,777
Mortgages	444,212	463,074
Real estate	3,322,750	400,000
	117,738,675	88,204,851
	121,524,987	89,409,544

Signed on behalf of the Board

GARDNER ENGLISH, Director

G. D. SUTTON, Director

LIABILITIES

	1975 $	1974 $
Accounts Payable		
Due to other insurance companies	27,408	311,232
Provision for claims	1,391,106	198,399
Accounts payable and accrued liabilities	697,974	212,703
Premium taxes payable	105,659	367,801
Income taxes payable	111,989	96,360
Due on undelivered securities	42,237	71,250
	2,376,373	1,257,745
Reserves		
Reserve for unearned premiums	55,285,406	44,027,503
Additional policy reserve	3,845,573	2,060,220
Reserve for unregistered reinsurance	382,692	334,213
	59,513,671	46,421,936
	61,890,044	47,679,681

SHAREHOLDERS' EQUITY

Capital Stock (note 2)		
Authorized –		
300,000 8% non-cumulative preferred shares with a par value of $100 each, redeemable at par		
200,000 common shares with a par value of $100 each		
Issued and fully paid –		
140,000 preferred shares	14,000,000	—
108,145 common shares	10,814,500	10,814,500
Surplus	34,820,443	30,915,363
	59,634,943	41,729,863
	121,524,987	89,409,544

HEAD OFFICE

Suite 1212, 401 Bay Street
Toronto, Ontario M5H 2Y4

UNDERWRITING

Assistant Vice-President
& Chief Underwriter – Georges W. Carpentier

Supervisor, Lease Guarantee – C. E. Madden

Supervisor, Mortgage Insurance – K. Antaya

BUSINESS DEVELOPMENT

Director – C. E. Locke

INVESTMENTS

Investment Officer – Barry A. Morrison

ADMINISTRATION AND PERSONNEL

Supervisor – J. W. Stewart

CONSTRUCTION INSPECTION

Chief Inspector – J. G. Kingston

REGIONAL OFFICES

HALIFAX
Suite 722, Cogswell Tower
Scotia Square
Halifax, Nova Scotia B3J 2V9
Manager – Sylvio Philippe

QUEBEC
Main Floor, 1134 Chemin St-Louis
Place Sillery Nord
Quebec, P.Q. G1S 1E5
Manager – Gilles Bruneau

MONTREAL
Suite 504, 4 Place Ville Marie
Montreal, P.Q. H3B 2E7
Manager – J. D. Boudreau

OTTAWA
Suite 606, 170 Laurier Avenue West
Ottawa, Ontario K1P 5V5
Manager – Gordon McLean

TORONTO
Suite 507, 401 Bay Street
Toronto, Ontario M5H 2Y4
Manager – George Pennie
Assistant Manager – David Stewart

WINNIPEG
Suite 1010, 330 Portage Avenue
Winnipeg, Manitoba R3C 0C4
Manager – E. P. Wasslen

EDMONTON
Suite 1317, 10025 Jasper Avenue
Edmonton, Alberta T5J 2W1
Manager – C. W. Whelan

VANCOUVER
Suite 1401, 1177 West Hastings Street
Vancouver, B.C. V6E 2L1
Manager – R. S. Kunciak
Assistant Manager – Tudor Weeks
Business Development Officer – W. C. Lee

AR11

MICC INVESTMENTS LIMITED

File

Canacorp

For the six months ended June 30, 1975

PRESIDENT'S REPORT TO SHAREHOLDERS:

The six month period ending June 30, 1975 witnessed the achievement of favourable operating results for the company. Its subsidiary, The Mortgage Insurance Company of Canada, issued commitments for $1,173,508,000 compared with $1,458,058,000 for the same period of 1974. While the level of commitments issued was lower for the half year, business committed in the second quarter was substantially higher than in the first, and nearly equalled the second quarter of 1974. Premiums on new business written amounted to $9,125,834 as against $11,456,907 last year.

Underwriting revenue rose to $4,459,880 from $3,961,610 for the comparable 1974 period. Investment income showed an increase to $3,990,391 from $2,282,686. Total revenue amounted to $8,450,271.

Losses from claims amounted to $859,971 for the six month period. In 1974, claims losses for the same period were $331,016. While the increase appears to be relatively substantial, losses are moderate in relation to insurance in force, and losses for the second quarter are lower than in the first quarter of 1975.

Net earnings for MICC Investments Limited for the quarter on a consolidated basis were $4,281,566 before loss on disposal of stocks. This compares with $2,934,603 before gain on disposal of stocks of $84,511 in 1974. Earnings per share were 75¢ on 5,711,080 shares outstanding; the 1974 figure was 64¢ on 4,594,752 shares outstanding

On June 30, 1975 a dividend of 6¢ per share was paid on the common shares of the company.

In the second quarter the gradual improvement in house sales continued, but at a relatively slow pace. This favourable trend was counterbalanced by a rise in mortgage interest rates. Housing starts have not shown as much improvement as had been hoped for by government and the construction industry. However, signs that the recession is receding may provide the necessary consumer and industry confidence to stimulate construction in the fall. Such a recovery would be favourable to your company's prospects.

GARDNER ENGLISH
President

August 7, 1975

MICC INVESTMENTS LIMITED

AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the six months ended June 30, 1975
(With comparative figures for the six months ended June 30, 1974)

	1975	1974
SOURCE OF FUNDS		
Operations—		
Net earnings for the period	$ 4,242,170	$ 3,019,114
Income taxes deferred	544,213	135,500
Depreciation	22,416	20,690
Funds generated from operations	4,808,799	3,175,304
Increase in Deferred Revenue	5,460,630	8,374,617
Decrease in loan to trustees under employee stock purchase plan	39,885	8,610
	10,309,314	11,558,531
USE OF FUNDS		
Decrease in accounts payable	27,341	1,428,301
Increase in cash and accounts receivable	1,717,717	209,732
Purchases of fixed assets	10,778	51,476
Dividend	685,330	413,528
	2,441,166	2,103,037
FUNDS AVAILABLE FOR INVESTMENT	7,868,148	9,455,494
INVESTMENTS— BEGINNING OF PERIOD	87,003,033	63,411,689
	94,871,181	72,867,183
INCREASE (DECREASE) ON UNREALIZED LOSS ON STOCKS	1,992,523	(3,026,210)
INVESTMENTS—END OF PERIOD	$ 96,863,704	$ 69,840,973

MICC INVESTMENTS LIMITED

AND SUBSIDIARY COMPANY

CONSOLIDATED BALANCE SHEET

	June 30 1975	1974
ASSETS		
Cash and Accounts Receivable	$ 3,054,849	$ 2,149,585
Investments	96,863,704	69,840,973
Other Assets	445,068	497,992
	$100,363,621	$ 72,488,550
LIABILITIES		
Accounts Payable	$ 1,218,679	$ 1,122,107
Deferred Revenue	48,121,855	38,095,668
Deferred Income Taxes	2,298,296	1,284,083
	$ 51,638,830	$ 40,501,858
SHAREHOLDERS' EQUITY		
Capital Stock		
Authorized—		
10,000,000 (1974—10,000,000) common shares without par value		
Issued and fully paid—		
5,711,080 (1974—4,594,752) common shares	$ 37,430,189	$ 26,266,909
Retained Earnings	15,086,330	9,662,436
	52,516,519	35,929,345
Unrealized Loss on Stocks	3,791,728	3,942,653
	48,724,791	31,986,692
	$100,363,621	$ 72,488,550

NOTE: Comparative figures have been restated to reflect change in accounting policy described in Note 3 to 1974 financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

For the six months ended June 30, 1975
(With comparative figures for the six months ended June 30, 1974)

	1975	1974
REVENUE		
Net Premiums written	$ 9,125,834	$ 11,456,907
Application fees	754,450	1,038,173
Commission income	15,873	5,084
	9,896,157	12,500,164
Less: Increase in Deferred Revenue	5,436,277	8,538,554
Underwriting Revenue	4,459,880	3,961,610
Investment income		
Interest and Amortization	1,678,822	1,228,021
Dividends	2,311,569	1,054,665
	3,990,391	2,282,686
	8,450,271	6,244,296
EXPENSES		
Insurance underwriting and policy issuance expenses	830,517	659,569
Premium taxes	184,374	228,981
	1,014,891	888,550
Less: Increase in Deferred Expenses	115,174	163,937
	899,717	724,613
Losses on claims incurred	859,971	331,016
Other operating expenses	447,098	438,964
	2,206,786	1,494,593
Earnings before Income Taxes	6,243,485	4,749,703
Provisions for Income Taxes		
Current	1,417,706	1,679,600
Deferred	544,213	135,500
	1,961,919	1,815,100
Earnings before Realized Gain or Loss on Disposal of Stocks	4,281,566	2,934,603
Realized Gain (Loss) on Disposal of Stocks	(39,396)	84,511
Net earnings for the Period	$ 4,242,170	$ 3,019,114
Earnings per Share		
Earnings before Realized Gain or Loss on Disposal of Stocks	75¢	64¢
Net Earnings for period	74¢	66¢

MICC
INVESTMENTS
LIMITED
BOX 14, 401 BAY STREET, TORONTO, ONTARIO M5H 2Y4